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COPY NO. 39

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: JUN 25 1951

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 2. Comments represent the preliminary views of the Office of Current Intelligence.
 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities.
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"A" USSR: Malik's Cease-Fire Proposal May Indicate Willingness to Settle Korean War. In a 23 June UN Radio Broadcast, Soviet UN Delegate Malik (1) suggested that "as a first step discussions should be started between the belligerents for cease-fire and an armistice providing for the mutual withdrawal of forces from the 38th Parallel;" (2) attacked the policy of the three Western Powers, particularly the "North Atlantic Military Alliance," armed intervention in Korea, seizure of Formosa, and the transformation of the UN into an instrument of war; and (3) summarized current Soviet "peace" themes. (U-New York Times, 25 June 51). COMMENT: Although the manner in which Malik's cease-fire proposal was made suggests that it may have been designed for propaganda purposes, it possibly indicates a Soviet desire to settle the Korean War. If so, the USSR may have preferred to assume the role of "mediator" because of the Soviet Union's official position of non-involvement in the Korean War. Even though Malik does not indicate what nations should participate in the discussions or that North Korea would be accessible to UN inspection teams, Malik's proposal is the first clear suggestion from the Soviet Government that a cease-fire might precede withdrawal of the "foreign interventionists" or discussion of a general Korean settlement. The other unacceptable Chinese Communist demands for a peaceful settlement, which were omitted by Malik and concerned seating in the UN and Formosa, have been omitted from informal statements by Soviet spokesmen and from Moscow propaganda since early April. During the last few months, there have been devious "feelers" from the Soviet Government regarding a Korean settlement, including Malik's conversations with UN delegations, and in early June, Malik accepted the UN invitation to broadcast.

"B" Ukraine Farmers Fail to Meet Quotas. According to a Ukrainian Regional Service-broadcast of 19 June, the present plenary meeting of the Central Committee of the Ukrainian CP, reports that discipline and organization of work in the kolkhozes have been improved as a result of the consolidation of small kolkhozes into larger kolkhozes and the strengthening of their "administrative cadres." Although the meeting found that tractors and other complex machines were being utilized to better advantage, it noted that Party organizations and state agricultural organs in some oblasts and rayons are "unsufficiently utilizing the advantages of the enlarged kolkhozes and the increase in technical equipment and machine-tractor stations." Offending areas specifically mentioned are: Zhitomir and Tarnopol oblasts for underfulfilling the flax and hemp sowing plans, and the kolkhozes of Poltava, Kirovograd and Kamenets Podolsk oblasts, for

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failing to fulfill the early fallow plowing plan. (R-FBIS, 21 June 51). Comment: This is one of the first press references to results of the current plan for the amalgamation of small kolkhozes. However, it seems to imply that despite some improvements, agricultural production has not increased to the levels optimistically anticipated a year ago.

"A" EASTERN EUROPE. Army Strength Reported to be Gradually Increasing. US Embassy Warsaw reports that presently available information indicates a trend toward a general increase in the strength of the Polish Army. The Embassy bases its opinion upon (1) personal observation of new personnel, (2) continued increase in the use of new trucks by the Army, and (3) repeated reports of older classes being retained in service and technicians being recalled. In addition, the Embassy has received [REDACTED]

[REDACTED] new artillery and infantry units are being formed. [REDACTED]

[REDACTED] by the Embassy, has reported that the Army's January 1952 goal is 22 divisions with approximately 228,000 men. (S-Warsaw 983, 22 June 51). Comment: The Polish Army's present strength is estimated at 180,000 after an increase in estimated strength from 136,000 in January 1951. On 11 May, the US Military Attache in Warsaw reported that non-coms, specialists, and officers were being recalled to active duty from the reserves. The report added that men scheduled for release from military service were being retained. Previous intelligence has revealed that new mechanized units were being formed in the Polish Army.

YUGOSLAVIA. Zagreb Peace Congress to Stress Co-existence. US Ambassador Allen reports that the Yugoslav chairman of arrangements for the October Peace Congress in Zagreb has informed him that the gathering will emphasize the fact that equality of the nations in the "free world" permits their peaceful co-existence. The Ambassador was assured that each foreign delegation will be free to add items to the suggested agenda (O/CI Daily Digest, 22 June 51) and to express its own ideas. Allen advises that the Yugoslavs apparently have received enough encouraging responses from foreign individuals and groups to justify their publicly announcing the Congress, its proposed agenda, and the fact that eminent public figures from foreign countries will attend. The Ambassador comments that the UN should not publicly endorse the Congress since the UN "should preserve its role as a universal organ, while the Zagreb conference will certainly be a partisan meeting." (R-Belgrade 1959, 22 June 51).

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Comment: The Yugoslav Government will undoubtedly attempt to use the Congress to build up Yugoslav prestige as the leading exponent of a non-Soviet brand of Communism which can co-exist with Western democracy. If delegates of the calibre of Mrs. Roosevelt (O/CI Daily Digest, 15 June 51) actually do attend, the Congress can provide a powerful Western propaganda weapon to counteract the current Soviet Peace Appeal.

"B" Growth of Trade With Greece Faces Difficulties. The US Ambassador in Athens reports that US hope for substantial trade between Greece and Yugoslavia has not yet materialized, apparently because the two countries mistrust one another and anticipate more profitable trade elsewhere. The principal economic benefits to Greece from improved relations with Yugoslavia have been secured through more economical and faster transportation connections with Western Europe. The Greek Government complains that Yugoslavia is demanding payment in dollars instead of exports, as provided in the trade agreement. Thus far, Yugoslavia has accepted only low grade tobacco, which, the Greeks allege, will release high grade Yugoslav tobacco to compete with Greek tobacco exports on the world market. (C-Athens, 4560, 22 June 51). Comment: A Greek-Yugoslav trade agreement signed on 10 Apr 51, after ten years of interrupted trade relations, provides for trade on a clearing basis with a settlement of the balance in dollars six months after expiration of the agreement. Greek-Yugoslav relations have generally been improving during the last six months, although the two governments retain suspicions based on long-standing differences.

"C" Exchange of Ambassadors with Canada Expected. According to US Embassy, Belgrade, the Yugoslav and Canadian Governments will announce the elevation of their respective legations to embassies in the near future. The decision on the part of the Canadians was prompted largely by the difficulty of finding a properly qualified person below ambassadorial rank to fill the important posts in Belgrade. Despite the apparent improvement in relations, the status of Archbishop Stepinac continues to be a matter of concern to the Canadian Government which will probably inform the Yugoslav Government that the Archbishop's continued detention constitutes an irritating factor in Canadian-Yugoslav relations. (C-Belgrade 1958; 22 Jun; C-Ottawa 1947; 12 Jun). Comment: Yugo agreement to the

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elevation of Canadian relations to ambassadorial status illustrates the Tito Government's readiness for improved relations with Western Powers. The Canadian Embassy in Belgrade will probably add the weight of Canadian Catholic opinion to urge the release of Archbishop Stepinac.

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SECTION 2 (EASTERN)

- "B" GREECE. Greece to Offer Additional Troops for Korea. The US Ambassador in Greece reports that on 24 June both the King and the Prime Minister informed him that the Greek Government had definitely decided to offer the UN additional troops for Korea. (S Athens 4596, 25 June 51). COMMENT: Greece has strongly supported the UN, and the commitment of additional troops underlines the backing which has previously been forthcoming. A further consideration which may have influenced the Greek government to take this step may have been their desire to show the NATO deputies - currently discussing the inclusion of Greece in NATO - that Greece is ready and willing to assume military responsibility..
- "C" ARAB STATES. Bahrain Sheikh to Receive Lump Sum Oil Payment as Interim Measure. The Bahrain Petroleum Company has decided to give the Sheikh of Bahrain a lump sum payment, thereby hoping to postpone any increase in payments of oil revenues until the pattern of Middle East royalty rates becomes clearer. The company feels that its original offer of increased royalties would compare unfavorably to those received by Saudi Arabia or those being offered to Iraq and Kuwait. Company officials feel that an interim lump sum payment would satisfy the Sheikh who is becoming impatient because he is not receiving payments comparable to other Persian Gulf oil areas. The Department of State suspects that BAPCO wants to avoid signing an agreement which might have to be revised in favor of a 50-50 profit sharing arrangement covering both producing and refining operations. The Department has questioned US Embassy London as to whether the UK Foreign Office's objections to a lump sum payment is based on desire to get BAPCO to commit itself to something other than a 50-50 arrangement. (C, to London 6082, 22 June 51). COMMENT: The entire Middle East oil picture is confused because of the Iranian situation. Increases in royalty rates are under consideration in Iraq, Kuwait, and Bahrain, with each company wanting to avoid AIOC's fate in Iran, but unwilling to proceed faster than any other company. There is some indication that the 50-50 profit sharing arrangement instituted by ARAMCO may be superseded by more liberal arrangements.
- "B" INDOCHINA. Peiping Threatens Overseas Chinese in Indochina. US Legation Saigon reports that a number of local Chinese merchants have been officially notified, through the open mail, that their properties in China would be confiscated if they failed to pay preposterous "back" taxes. These notifications also contained implied threats of reprisals against the families of tax "delinquents." A specific example of Communist pressure upon overseas Chinese is the case of a Chinese vice consul who received word from his wife that she was imprisoned in Swatow and would be executed unless he broke with the Kuomintang and returned to China "to place (his) talents at the disposal of New China." Of those Chinese interviewed on this matter, the Legation states that one fourth have indicated a decision to comply with Communist demands. (S Saigon 2301, 22 June 51). COMMENT: Similar efforts to exploit overseas Chinese have been noted elsewhere in Southeast Asia, and will contribute to the growing anti-Communist sentiment among overseas Chinese. So long as these Chinese see no alternative to the regime presently in Peiping, however, their antagonism is likely to be held in check and many will bow to Communist demands.

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"C" NEW ZEALAND. Government Rejects Watersiders' Return-to-Work Offer. The New Zealand Government refused the most recent return-to-work offer of the striking Waterside Workers Union and demanded resumption of work on Government terms. The union then decided to continue the strike. (R Wellington 106, 22 June 51). COMMENT: The four-month watersiders' strike represents a showdown between the Government and the WFTU-affiliated Waterside Workers Union (WWU). Following numerous indications that cooperation with the union was impossible and convinced that union tactics followed WFTU directives, Government strategy is aimed at the removal of present WWU leaders from their authority over the waterfront. The WWU was deregistered in February and its authority has been replaced in many ports by newly formed local unions which have since been registered with the government. With the exception of Wellington, work at major ports is progressing reasonably well. Militant national leaders of the WWU, however, may be expected to postpone capitulation as long as possible.

"C" CHINA. Governor K. C. WU Receives Taiwanese Vote of Confidence. The administration of K. C. WU, the fourth Nationalist governor of Taiwan since 1945, received a unanimous vote of confidence from the Provincial People's Council (PPC) at the conclusion of its semi-annual meeting 23 June. The PPC, an elected body of 34 members, all natives of Taiwan, endorsed WU's past and future programs as having been tailored to fit the needs of the Taiwanese. (U Taipei AP, 23 June 51). COMMENT: While the PPC has little actual power in the administration of Taiwan affairs, its endorsement is believed to reflect a growing sentiment on the part of the Taiwanese that the Nationalists, after getting off to a bad start, now offer some favorable possibilities. Indications of something more than grudging acceptance of the present administration have been observed growing in proportion to the increasingly disturbing mainland reports which indicate the Communist alternative would be a more repressive regime.

"C" Communists Ban Feather Exports Because of Orbit Commitments. The principal feather exporters in Hong Kong report that the Chinese Communists have a priority commitment to ship 2,880,000 pounds of feathers to an Eastern European country, probably Czechoslovakia, and as a result have banned exports to non-Communist buyers. (S Hong Kong 3867, 21 June 51). COMMENT: Feathers have several military uses, including insulation and sleeping bags. They are in short supply in the US, but not in Eastern European satellites which produce enough for their own use. The Soviet Orbit may be buying Chinese feathers with the intention of re-exporting them to western countries.

"C" KOREA. Intensified Enemy Jet Fighter Operations. The Far East Command views the intensification of enemy jet fighter operations during the past week as firm indication that the enemy will continue to provide vigorous air defense of the Yalu River border area.

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MIG-15's engaged UN aircraft on each day last week except on the 21st when bad flying weather may have provided a reason for the lack of activity. In addition, the improved quality of enemy fighter operations is indicated by the fact that in each of three aerial engagements during the week an F-86 was lost to enemy action. This sharp increase in combat proficiency may be attributed to the probable commitment of a new, highly trained jet fighter unit to the Korean air war, an hypothesis supported by the observation of new markings on an enemy jet fighter group. FEAF's estimate of the total number of jet fighters available to enemy forces in Manchuria has not been increased as there is insufficient evidence to estimate accurately whether this unit is new or one previously active over Korea and re-committed following further training.

"C" JAPAN. Communists Plan "Peace Month". The Peace Protection Committee, Japanese Communist affiliate of the World Peace Council has designated the period 25 June to 15 August as "peace month". Four days - 25 June (Korean War), 7 July (Sino-Japanese War), 1 August (Anti-war Day), and 6 August (Atom Bomb Day) - are earmarked for high pressure national drives, and each day that bombs fell anywhere in the nation is listed for local "peace" expression. The committee is aiming at 10,000,000 signatures for a big-five peace pact. (S SCAP Press Analysis, 14 June 51). COMMENT: The Japanese public has become resigned to the inevitability of a treaty without the participation of the USSR and China. There is, however, considerable appeal to the war-weary Japanese in any movement which promises "non-involvement" in any future US-USSR struggle, as evidenced by the estimated 3 to 6 million signatures for the Stockholm appeal. With the Communist Party expecting to be outlawed following the treaty, this campaign points to a last all-out overt effort to discredit the Yoshida regime for its pro-US policies.

"C" JAPAN/RYUKYUS. Manganese Deposits Discovered in Ryukyus. Two rich deposits of manganese, recently discovered on the island of Yaeyama in the Ryukyu group are believed to be among the world's best, with the ore showing 70% manganese content. Deposits are estimated at over 4 million tons, and are believed capable of yielding 20,000 tons each month for 17 years. (S FEAF AX 8939, 21 June 51). COMMENT: If this report is borne out, the ore will serve a double need by providing exports for the normally deficit Ryukyuan economy, and providing Japan's rapidly expanding steel industry with critically needed manganese.

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SECTION 3 (WESTERN)

"B" GERMANY-FRANCE. Views on the Organization of a German Defense Contribution.
 25X1X [REDACTED] does not expect the forthcoming report on the European Army discussions to resolve the principal differences in regard to such a force, but he believes it will provide a basis for considering the European Army idea together with a German defense contribution to NATO. (A report of the Petersberg talks on a German NATO contribution is about to be released.) To a plenary session of the European Army conference on 22 June, [REDACTED] the view that a German contribution to NATO could not be discussed by itself because the German proposals, departing from the prescribed terms, are not accepted by the Allies. Ac-
 25X1X [REDACTED] the outstanding differences in the European Army conference concern: (1) the size of the basic military unit and the level at which international integration will take place, (2) the question of whether the defense commissariat shall be headed by one commissioner or a committee, (3) the powers of the assembly over the budget, and (4) the degree of detail to be included in the European Army treaty. The Germans say that a treaty cannot be signed until political issues, such as the occupation statute, are settled. [REDACTED] when the report on the Paris talks is received about 10 July, the participating governments will then decide whether to give new instructions to the delegates at Paris, or hold a ministerial meeting. (S Paris 8040, 23 June 51) COMMENT: By considering the Petersberg and Paris reports simultaneously, the French hope to smother the German proposals for a direct contribution to NATO. These proposals are regarded by the French as tantamount to plans for a German national army, chiefly because they envisage a German general staff and defense ministry. Postponement of action on these proposals has already been a major factor in the reversal of the trend toward neutralism in France and has helped the French Government prepare public opinion for a major German contribution to Western defense.

"B" FRANCE. Election Losses not a Defeat for Communist Party. The decrease in the Communist popular vote (from 28.6% in 1946 to 26.1% in 1951) can hardly be regarded as a defeat, inasmuch as the party again demonstrated its ability to command the strongest popular support of any party in France. French public opinion has, however, begun to veer away from Communism; even though the party was in a favorable position to exploit social discontent and the desire for peace. Communist losses were greatest in departments where the party's strength has been traditionally low, and the vote fell appreciably in departments where US troops are presently located. The election results also demonstrated that the neutralist movement has no "grass roots" following and that the Independent Communist Movement with only 20,000 votes made no important cut in the Communist vote. Furthermore, the drop in Communist voters does not indicate any loss in real party strength or capacity for action. The extent of the Communist popular vote would seem to point out that large segments of the

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French people fail to understand that the French Communist Party (PCF) is an instrument of Moscow. (S Paris 7980, 21 June 51) COMMENT: A continuation of the shift in French public opinion away from the Communists is at present doubtful in view of the unfavorable outlook for adequate anti-inflation measures in France. The bulk of the Communist electorate, which remains convinced that the PCF is the only dependable champion of low-income groups, considers that its first loyalty is to France. It is now probable that the PCF will devote less attention to the neutralists, but will watch carefully the Independent Communists.

"B" ITALY. Civil Defense Bill Meets Stiff Communist-Inspired Opposition. On 21 June the Chamber of Deputies, by a slim majority of 237 votes to 204, approved in principle the Government-sponsored civil defense bill empowering Interior Minister Scelba to create the administrative machinery necessary to protect the civilian population from natural peace-time calamities and from war-time dangers. The bill still requires article-by-article approval by the Chamber before going to the Senate. The Communists, who with their Nenni Socialist allies comprised most of the opposition, charged that the bill would give exceptional war-time powers to the government in violation of the Constitution and would enable the majority Christian Democrats to create a party militia modeled on the old Fascist militia. They also announced their intention to organize a nationwide propaganda campaign to unite all forces opposed to the bill. (U Rome 5880, 22 June 51; R FBIS, 22 June 51; U NY Times, 22 June 51) COMMENT: The Communists, by their attack on the increasing authoritarianism of the Christian Democrats, have succeeded in rallying a large sector of the non-Communist deputies in opposition to the bill. Delaying tactics by the Communists in the form of proposed amendments to the bill will not prevent its eventual passage but may delay it, particularly if these maneuvers are integrated into the Communist peace campaign which is enjoying considerable public support. Security measures envisaged by the Government's bill should further improve the confidence of the Italians in the government's ability to maintain public order.

"C" UNITED KINGDOM. Shortage of Manpower Seen as Threat to Rearmament Program. A probable shortage of skilled labor, rather than the more publicized scarcity of various essential raw materials, is likely to be the most critical factor in Britain's expanded defense production program. Some manpower shortages already exist, notably in the engineering and aircraft industries. In the machine tool industry a shortage of skilled labor will become acute as soon as present deficiencies in plant capacity are overcome. Over the economy as a whole it has been officially estimated that, since unemployed labor is practically non-existent, the rearmament program will require the transfer of some 500,000 workers to defense industries. The war-time authority for the redirection of labor was rescinded in 1949 and prospects for a voluntary redistribution of labor appear rather dim, inasmuch as many of the defense jobs are not particularly highly-paid and

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the fluctuating nature of activity in these industries may, in a period of full employment, discourage any incentive to transfer. It is expected—and indeed rather hoped—that the shortage of materials in industries primarily engaged in supplying consumer goods will force redundant workers to seek employment in the defense industries. Foreign labor will be augmented as much as possible but will probably not appreciably affect the overall manpower situation. There is also some speculation that industrialists are attempting to obtain exemption from military service for specific categories of skilled labor such as that now granted to coal miners. If a serious lag in defense production develops as a result of a manpower shortage, the government may reluctantly find it necessary to reinstitute the Direction of Labor order. This will be regarded with extreme disfavor by the labor rank-and-file.

"B" ALGERIA. Administration's Electoral Pressure Encourages Nationalist-Communist Coalition. Ballot-box stuffing and police pressure used in the Second College (native) and fraud in the First College (European and Europeanized natives) were prevalent in the French National Assembly elections held in the Algerian Departments, in which all nationalist candidates were defeated. In reaction to these activities, the moderate nationalists (UDMA) are said to be seriously considering the abandonment of their policy of conciliation and the conclusion of an alliance with the extremist nationalists (MTLD) and the Communists. A liberal group is being formed and will endeavor to obtain the removal of the Governor General, the Secretary General of Government, and the Prefect of Algiers, who are considered responsible for the electoral pressures. (R Algiers 210, 21 June 51) COMMENT: Although there will be considerable anti-French feeling as the result of this election, it is not likely that sufficient cohesion and backing will be obtained to secure the removal of these officials. The UDMA is extremely vacillating and its leaders opportunistic. While a coalition with the MTLD and Communists might be formed, there is little probability that it would develop sufficient force to threaten Algerian stability.

"B" FRENCH MOROCCO. Sentencing of Nationalist Invites Anti-French Activity. The local native (French-controlled) court in Rabat has sentenced a nationalist leader to three months' imprisonment on the charge of being a threat to public security for having signed telegrams addressed to the UN and the French Government protesting alleged French repressive measures in the Atlas region. The nationalist party probably will use this action to demonstrate the party's solidarity with the Berbers of the Atlas area. (C Rabat 160, 22 June 51) COMMENT: This is another incident through which the French demonstrate their determination to wipe out nationalism and maintain the whip hand in Morocco. Inasmuch as the Moroccans lack the means to resort to violence, such measures appear too drastic. By keeping the Moroccan crisis of early 1951 fresh in the public mind and furnishing evidence of French repressive activities, the French aid those who seek to have the Moroccan situation discussed in the UN.

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"C" UNION OF SOUTH AFRICA. New Anti-Government Group has Support of Industrial and Financial Interests. US Embassy Capetown has learned that the War Veterans' Action Committee (WVAC), which was responsible for organizing the significant multi-racial demonstration on 28 May against the government bill depriving Cape Colored voters of their place on the common voters' roll (see OCI Daily Digest, 29 May 51), has been receiving help from industrial and financial interests. These interests are strengthening the WVAC in the hope that it may help to defeat the Nationalists at the next general election. (R Capetown, Joint Weeks 48 and 49, 1 June and 8 June 51) COMMENT: The relationship between the veterans' group and the opposition United Party (UP) is not yet clear. The Nationalists are not alarmed at the formation of the new group, since they believe it will cause a split in the UP, which will in any case be weakened by passage of the Colored vote bill, since Colored votes were decisive in the UP's retaining several parliamentary seats in the Cape. With the support of financial and industrial interests which fear the political and economic consequences of the government's rigid race segregation policies, the WVAC may become a rallying point for anti-government forces which are discouraged by UP ineffectiveness. If the WVAC and UP should cooperate, they would constitute a threat to the Nationalist government.

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25 June 1951

SECTION 2 (EASTERN)

"B" IRAN. US Ambassador Comments on Mossadeq's Position. Ambassador Grady reports that while it is impossible to look very far ahead, Prime Minister Mossadeq is currently riding the crest of the wave and is not hesitating to use threats of terrorism against those who oppose him. He further states that while it is to be hoped that he will not be able to do great damage before he falls from power, this is not certain if the Tudeh are able to exploit the situation to bring about trouble and chaos. The disintegration of the Anglo-Iranian Oil Company's staff is the main danger, and there are definite indications that the Iranians wish to push out refinery superintendent Drake. Grady fears that those in power in Tehran are as anxious for lucrative jobs in the expropriated industry as they will be for the proceeds from the oil production. (S, S/S Tehran 3399, 22 Jun 51). COMMENT: In view of the inadequate preparations made by the Iranians to take over the oil industry, and their apparent disregard for practicality it is difficult to see how severe economic disruption can be avoided.

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